Date and Time: Tuesday, May 16, 2023 11:40:00AM PDT

Job Number: 197214605

Document (1)

1. *EU urged to end 'doom loop' with tougher climate finance rules*

Client/Matter: -None-

Search Terms: "doom" and ("climate" or "eco")

Search Type: Terms and Connectors

Narrowed by:

Content Type	Narrowed by
News	Sources: National Post (f/k/a The Financial Post)(Canada); Timeline: Jan 01, 2018 to May 15, 2023; All Content Types: News; Geography by Document: North America; Geography by Document: Canada

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EU urged to end 'doom loop' with tougher climate finance rules

National Post (f/k/a The Financial Post) (Canada)

May 5, 2021 Wednesday

Web Edition

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Section: PMN BUSINESS

Length: 349 words

Body

LONDON - European Union policymakers faced a call on Wednesday to break a '***climate***-finance ***doom*** loop' by making banks hold up to three times more capital to cover risks from fossil fuel activities.

Finance Watch, which campaigns to make finance work better for society, has written to European Commission President Ursula von der Leyen, urging the EU to toughen capital rules for banks and insurers involved in environmentally damaging activities.

"The longer the European Union waits, the higher the chances mount that it will face a financial crisis induced by the ***climate*** crisis," Finance Watch said in the letter.

The lobby group, set up after taxpayers had to bail out banks in the 2008 financial crisis, is supported by its members, philanthropic foundations, public donations, and the EU.

The EU is reviewing its capital rules for banks and insurers, and Finance Watch has suggested changes that would force them to hold far more capital to cover polluting activities, such as financing new mines or refineries.

It is unclear how far the EU would take on board Finance Watch's suggestions given it needs banks to help the bloc recover from the COVID-19 pandemic and is rolling out new rules that emphasize disclosures of ***climate***-related activities.

Under current bank rules, financing fossil fuel activities carries the same risk 'weighting' as other types of corporate financing. Banks use these to calculate how much capital they should hold in case the activities turn sour.

As many oil and gas companies have high credit ratings, the risk weighting for them can be as low as 20% to 50%.

The risk of such activities becoming 'stranded' or suddenly worth far less due to ***climate***-related events, is not factored into bank capital rules sufficiently, the letter said.

"To rectify this, a risk weight of 150% ... should be applied to existing fossil fuel exposures," it added, bringing the investments into line with others which are considered more risky, such as private equity. (Reporting by Simon Jessop; Editing by Alexander Smith) !@COPYRIGHT=© 2021 Postmedia Network Inc. All rights reserved.

Classification

Language: ENGLISH

Publication-Type: Newspaper

Subject: EUROPEAN UNION (95%); ECONOMIC CRISIS (90%); GREEN FINANCE (90%); INTERNATIONAL ECONOMIC ORGANIZATIONS (90%); NEGATIVE NEWS (90%); PUBLIC POLICY (90%); BAILOUTS (78%); BANK FAILURES (78%); ***CLIMATE*** CHANGE (78%); CORPORATE FINANCE (78%); EURO CRISIS (78%); EUROPEAN UNION INSTITUTIONS (78%); NEGATIVE ENVIRONMENTAL NEWS (78%); POLLUTION & ENVIRONMENTAL IMPACTS (76%); CHARITIES (74%); EQUITIES (73%); LOBBYING (73%); POLLUTION (72%); PRIVATE EQUITY (72%); COVID CORONAVIRUS (71%); PHILANTHROPY (69%); COVID-19 CORONAVIRUS (66%); INFECTIOUS DISEASE (66%); FOUNDATIONS (54%); EPIDEMICS (51%); london,european,union,policymakers,faced,break !@PERMALINK= *https://financialpost.com/pmn/business-pmn/eu-urged-to-* end -***doom***-loop-with-tougher-***climate***-finance-rules (%)

Industry: BANKING & FINANCE (90%); ENERGY & UTILITIES (90%); GREEN FINANCE (90%); FOSSIL FUELS (89%); BANK FAILURES (78%); EURO CRISIS (78%); INSURANCE (77%); OIL & GAS INDUSTRY (77%); EQUITIES (73%); PRIVATE EQUITY (72%); CREDIT RATINGS (67%); MINING & EXTRACTION (67%); COMMERCIAL LENDING (50%)

Person: URSULA VON DER LEYEN (79%)

Geographic: EUROPEAN UNION MEMBER STATES (94%); EUROPE (90%)

Load-Date: May 5, 2021

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